



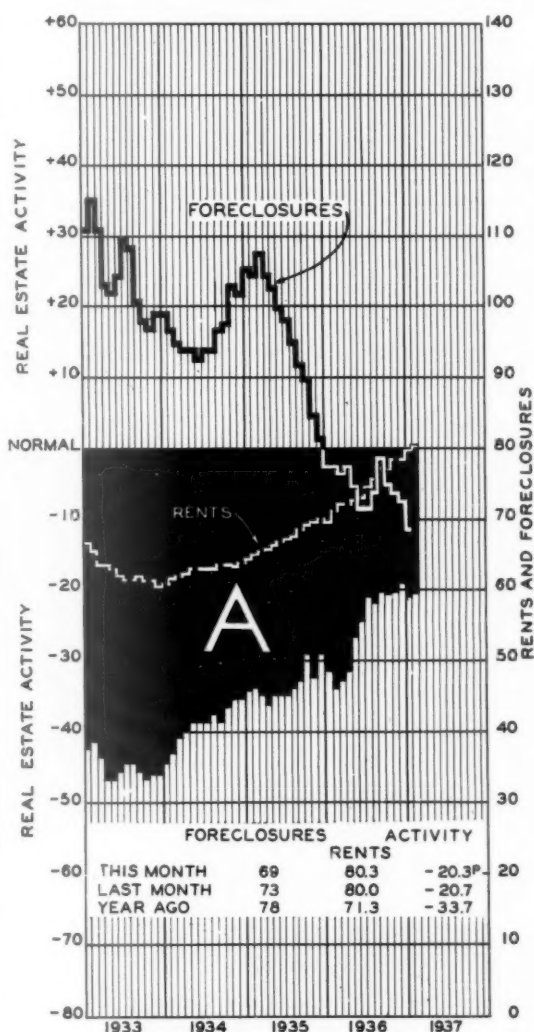
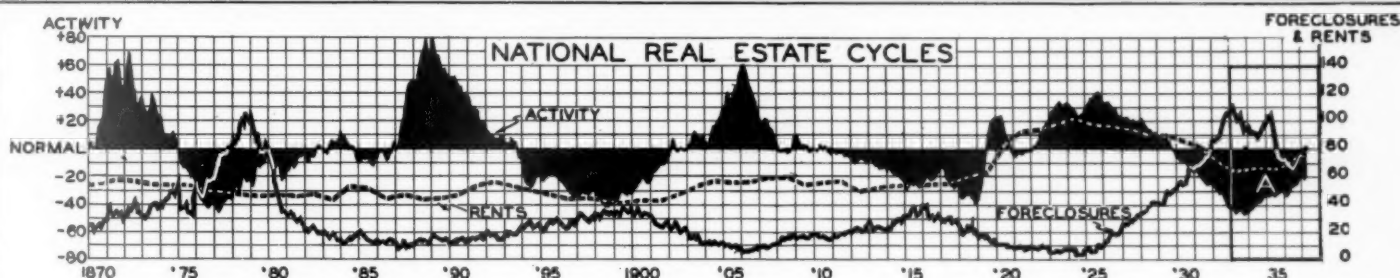
The Real Estate ANALYST

MARCH
1937

Roy Wenzlick
Editor

A concise easily digested monthly analysis based upon scientific research in real estate fundamentals and trends...Constantly measuring and reporting the basic economic factors responsible for changes in trends and values...Current Studies...Surveys...Forecasts

Copyright 1936 by REAL ESTATE ANALYSTS, Inc. — Saint Louis
Real Estate Economists, Appraisers and Counselors



THE chart above shows the fluctuations of urban real estate activity, foreclosures, and rents in the United States from 1870 to the present. The chart to the left is the last four years of the upper chart enlarged to show monthly fluctuations. This chart is explained in detail in the article starting on page 632 in the November issue.

Residential rents for March show a continued increase for both the single dwelling and apartment types. The increase for March of three-tenths of a point for all types continues the steady increase experienced during the past three years.

Real estate activity, shown by the black areas on the chart above and on the chart to the left, and measured by the number of voluntary transfers of real estate in relation to the number of families, shows a slight improvement for February. While temporary recessions are to be expected, the trend since 1933 has been definitely upward; every factor is favorable for the continued improvement in market conditions during 1937.

Our national index of foreclosures shows a marked drop of four points, or 5.5%, from the figure of the preceding month. This is the lowest point reached in the last six years. Actual increases in net income from

increased rents and occupancy tend to lessen foreclosures, and anticipated increases in net income tend to maintain an orderly liquidation of properties held by unwilling owners, which results in stimulating market activity and values.

HOW DO INCREASING CONSTRUCTION COSTS AFFECT THE VALUES OF OLDER BUILDINGS?

FORECASTS are of value only if they correctly predict the future. This means that the value of any specific forecast cannot be determined until it is too late to use it practically. The man who waits to test by actual performance the accuracy of the forecast that the stock market will advance ten points in a given time is convinced too late to profit by the rise.

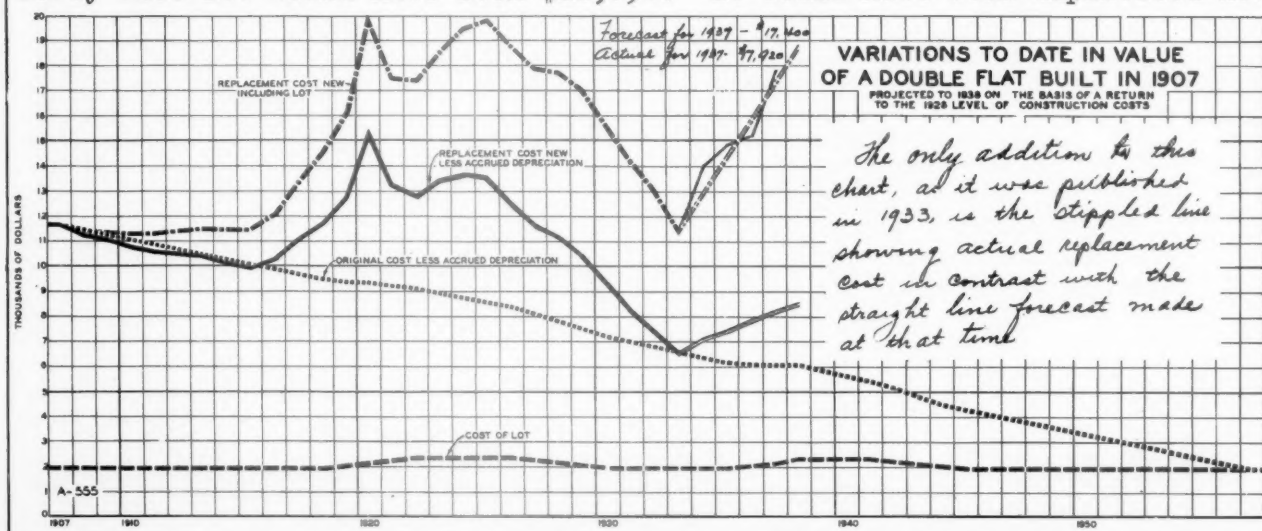
We think it is possible to forecast real estate movements with reasonable accuracy some period of years in advance. As proof of this statement we refer our clients to the back files of our reports, available in many of the principal libraries of the United States.

In the Real Estate Analyst for January, 1933, we published an article on the probable effects of an increase of construction costs on the values of buildings then standing.

Construction costs of residential buildings had been dropping since 1925 and had hit a very low point in the spring of 1933. During the next three months they showed a slight rise, followed by a rather rapid increase in the month of July. We assumed in this article that residential replacement costs would increase by more than 70% by 1938, an assumption which we believe shocked many of our clients. We showed this assumption in a large chart on pages 164 and 165 of that report, and we have reproduced that chart below.

In order to bring our study at that time down to a factual basis we based it on a study of the changes in the replacement cost of a typical four-family building actually built in St. Louis. We were able to refigure this building in detail year by year from 1907 to 1933. A photograph of the type building we used together with floor plans is shown on page 699 in this report. A complete description of it with detailed tables showing the variations in cost of the various types of materials, labor, and overhead was given in the Real Estate Analyst for October, 1932.

Had this building been built in 1907, its original cost on a forty foot lot would have been \$11,690. It could have been duplicated new



at the time our report was written in 1933 for \$11,600, or almost the exact amount of its original cost. The fluctuations in the replacement cost new each year, including the lot, were shown by the top line on the chart, which we have reproduced below. Our forecast, drawn at that time on the chart, of the increase in construction cost from 1933 to 1938 was shown by the shaded line. A table accompanying this article showed that we expected the replacement cost to advance from the \$11,600 at that time to \$17,400 by 1937. The replacement cost of this building today is \$17,920, or \$520 higher than our forecast of four years ago. The actual course of replacement costs during the four years since this chart was first published has been added to the chart by the stippled line. We expected costs to advance by 50% in four years, but they advanced by 53%---so much for the accuracy of our construction cost forecast.

We have frequently been asked the question, "How do increasing construction costs affect the values of older buildings?" There seems to be little question in any one's mind that, as construction costs go up, buildings built within the last few years will appreciate in value; but there seems to be more question concerning buildings built ten, fifteen, twenty years or more ago. Will increasing construction costs increase the value of these buildings?

It might be well to define our terms before we go any further. Let us get clearly in mind what we mean by replacement cost, market price, and present worth. By replacement cost we mean the total cost of replacing a property new. In this replacement cost we include not only the actual cost of labor and materials but all overhead items as well, even including interest during construction, financing, the cost of sidewalks, sodding, and other essential expenses. On the chart on pages 696-698 in this report the replacement cost of the four-family building shown in the photograph has been quite carefully figured from 1907 to date. The top line of the chart shows this cost for this specific property expressed in thousands of dollars. The table below shows the same data in dollars and in percentages of the 1926 level.

YEAR	COST	1926=100	YEAR	COST	1926=100
1907	\$11,690	62	1923	\$18,703	99
1908	11,541	61	1924	19,573	104
1909	11,465	61	1925	19,923	106
1910	11,379	60	1926	18,842	100
1911	11,386	60	1927	17,964	95
1912	11,521	61	1928	17,748	94
1913	11,599	62	1929	17,073	91
1914	11,525	61	1930	15,675	83
1915	11,545	61	1931	14,244	76
1916	12,133	64	1932	13,104	69
1917	13,434	71	1933	11,600	62
1918	14,540	77	1934	14,000	74
1919	16,189	86	1935	14,800	79
1920	20,044	106	1936	15,300	81
1921	17,597	93	1937	17,920	95
1922	17,419	92			

Market value would represent the liquidating value of the property at any time. It is the amount which the property could be expected to bring were it necessary to sell it within a reasonable time in the current market. Market value depends entirely upon the relationship of the supply of, and demand for, similar properties. In a boom market the demand will be greater than the supply, and market values will rise above worth. At the bottom of a real estate depression the supply of similar properties for sale will exceed the demand, and market values will fall below worth.

By worth we mean the value of the property as an investment. This worth depends entirely upon the present value of all future benefits which can be secured from ownership of the property during its remaining economic life. Over a long period of years worth is determined by replacement cost less accrued depreciation. By this we do not mean that any piece of property at any time would bring on the open market what it would cost to replace less accrued depreciation, although many appraisers assume this to be true, confusing worth and market value.

Accrued depreciation is a permanent loss to the worth of the property unless it is mitigated by physical restoration and modernization of the property itself, or by economic rehabilitation due to favorable changes in the neighborhood. The changes in market value are temporary, as decreases or increases are brought about by changes in the relation of supply and demand.

Increases in real estate activity or in construction costs may make real estate increase in market price faster than depreciation deductions carry it down.

Now with our definitions out of the way, let us return to our four-family building. Had this building been built in 1907, thirty years ago, considerable deterioration and obsolescence would now have taken place, both in the building and in the neighborhood. The government would allow us to deduct for this depreciation at the rate of two per cent a year, a percentage which we believe is too high on many types of property. But because of the speculative nature of the building we are considering, a fifty-year economic life is probably approximately correct.

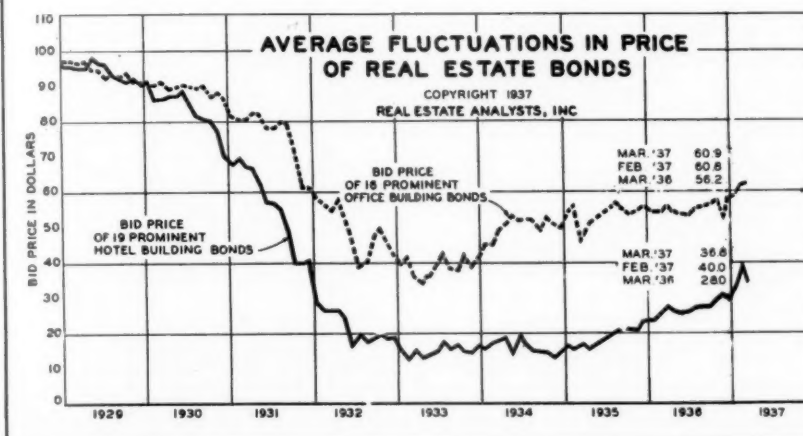
Two per cent a year is what is known as straight line depreciation. We do not believe that depreciation ordinarily follows a straight line, as our studies have indicated that it is more rapid in the early life of the building and slows down as the building gets older. For the purpose of this study, however, we are accepting the two per cent a year.

In 1907 the building and lot cost \$11,690. If we deduct our depreciation at the rate of two per cent a year from the original cost of the improvements (the ground does not depreciate as the building does), the value we would find in any given year is indicated on our chart, pages 696-698, by the gradually declining line, until in 1956 the building would produce only enough revenue to pay a return on the ground and would have practically no value. In 1937, on this basis, the value of our property would be \$6,076. As this value is very much below the amount for which buildings of this type, thirty years old, are now selling, even in a depressed market, this method of determining worth has clearly no value.

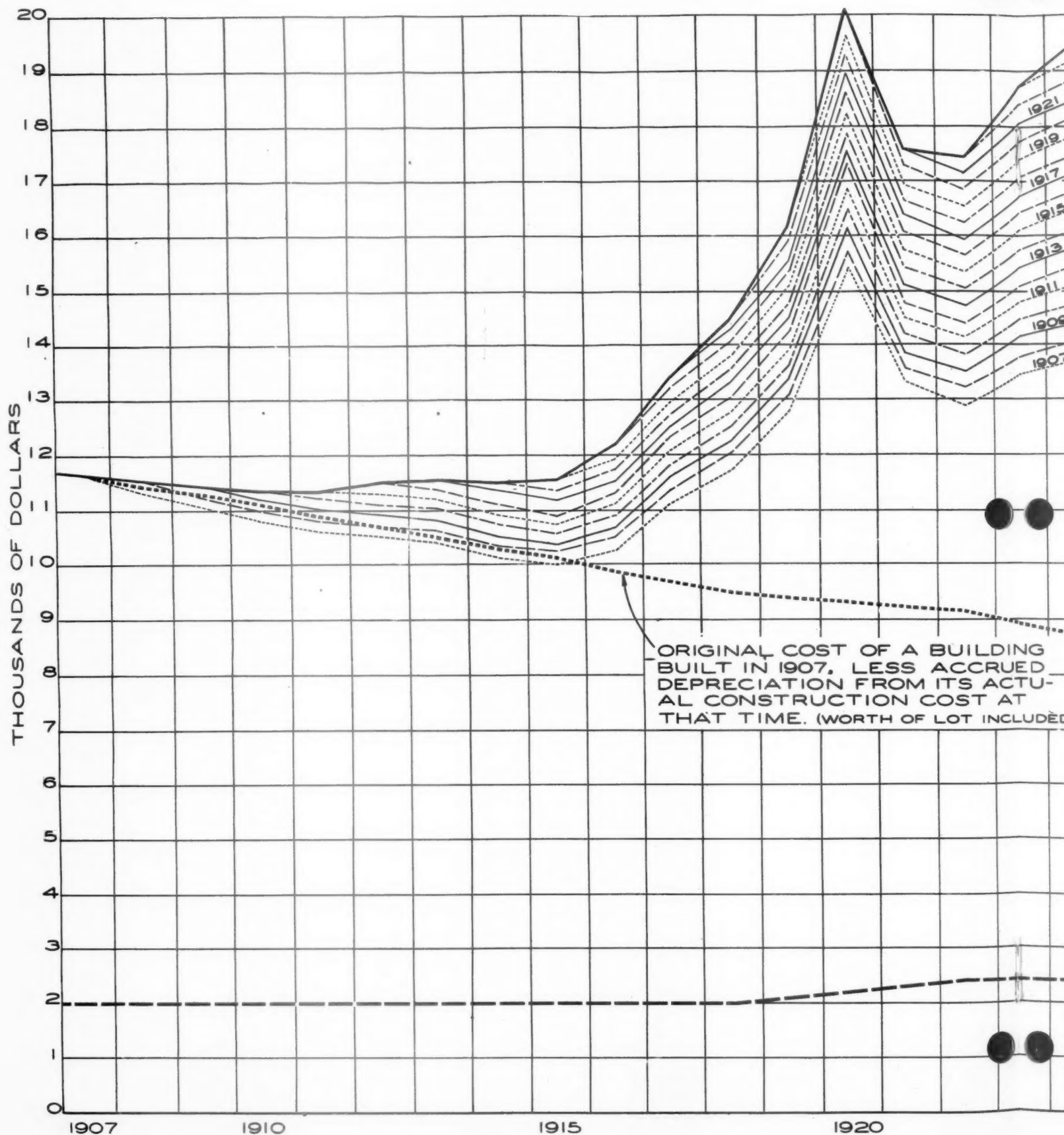
The fundamental fallacy is, of course, deducting our accrued depreciation from the original cost. This method would be justified only in a period when construction costs remain constant. Accrued depreciation should be deducted, not from the original replacement cost but, from the current replacement cost. On that basis the worth of a building built in 1907 would have varied roughly in accordance with the lowest line of the band on the long chart. This line deducts two per cent from the replacement cost in 1908, four per cent from the replacement cost in 1909, six per cent from the replacement cost in 1910, twenty per cent from the replacement cost in 1917, forty per cent from the replacement cost in 1927, and sixty per cent from the replacement cost in 1937. Checking against actual properties on the market, we believe that this line does represent roughly what has happened to the worths of properties of this type built about that time. Market price will vary slightly from the worth line, being below it during a period like the present when real estate activity is below normal, and above it in a period like 1925 when real estate activity was at the peak.

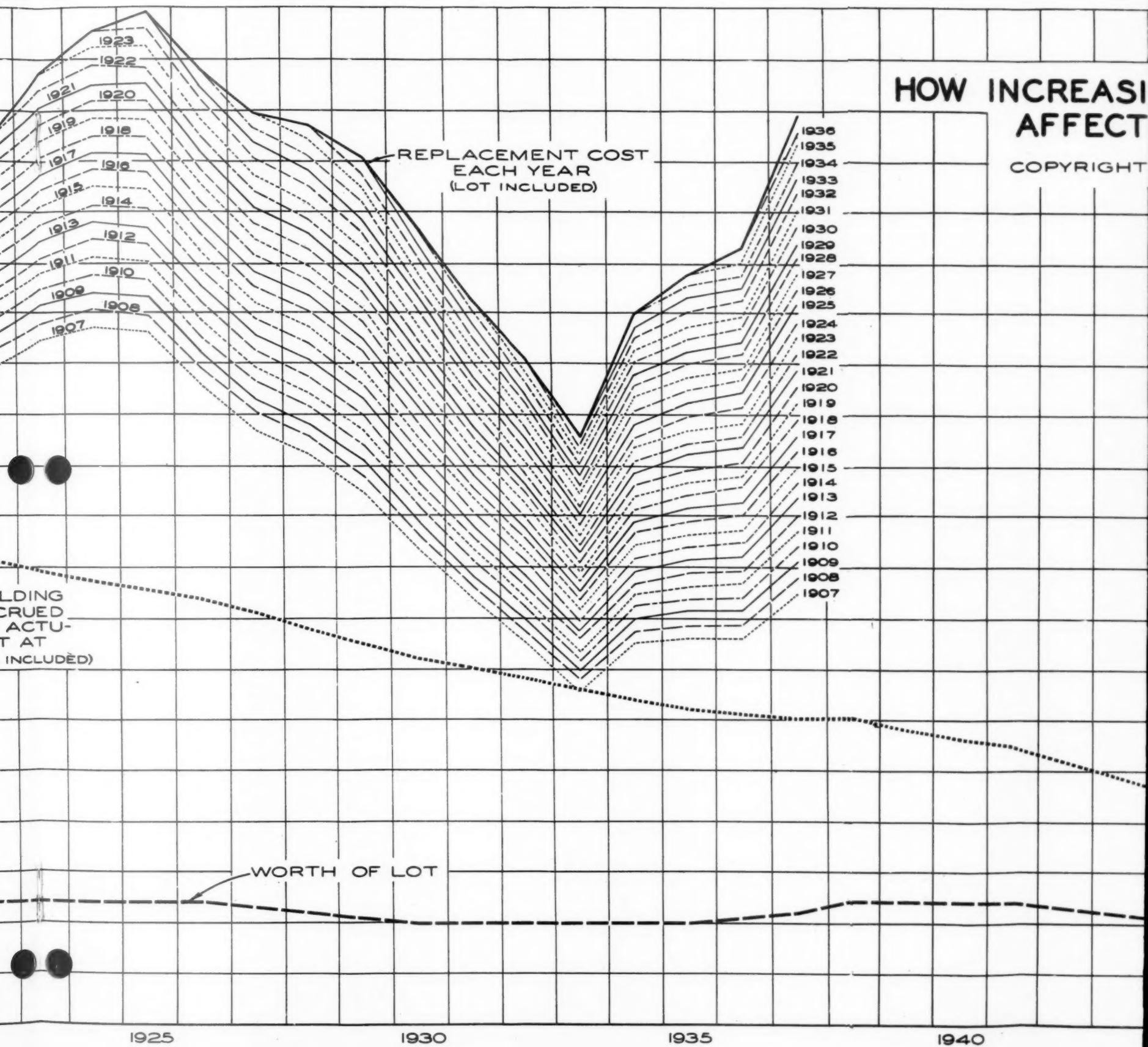
While the bottom line in the band on the chart represents the theoretical fluctuations in worth from 1907 to the present, the intermediate lines show the same thing for properties built in the years shown by the figure to the right of the line.

It now becomes possible from a study of the chart to get some idea of the approximate increase or decrease in the worth of a property of any given age as construction costs increase or decrease. If a property built in 1933 is taken as an example, it will be found that, in spite of the fact that this property is now four years old, its worth has increased from \$11,600 to \$16,700; or an increase of 43%. The increase in market price is less than this, as actually there is some lag in the effect of construction costs on values. Contrast this, however, with our building built in 1907, which in 1933 according to our chart had a worth of about \$6,500. The increase in construction cost has increased the worth of that property in spite of four additional years of depreciation, until today it is approximately \$8,500, an increase of about 31%. In other words, the older the building the less its worth is increased by an increase in construction costs. The worth of an extremely old building will not increase at all, although the market price will increase, as in a boom market the public buys without discrimination, and the general buoyancy of the market carries up the worthless property with the good.



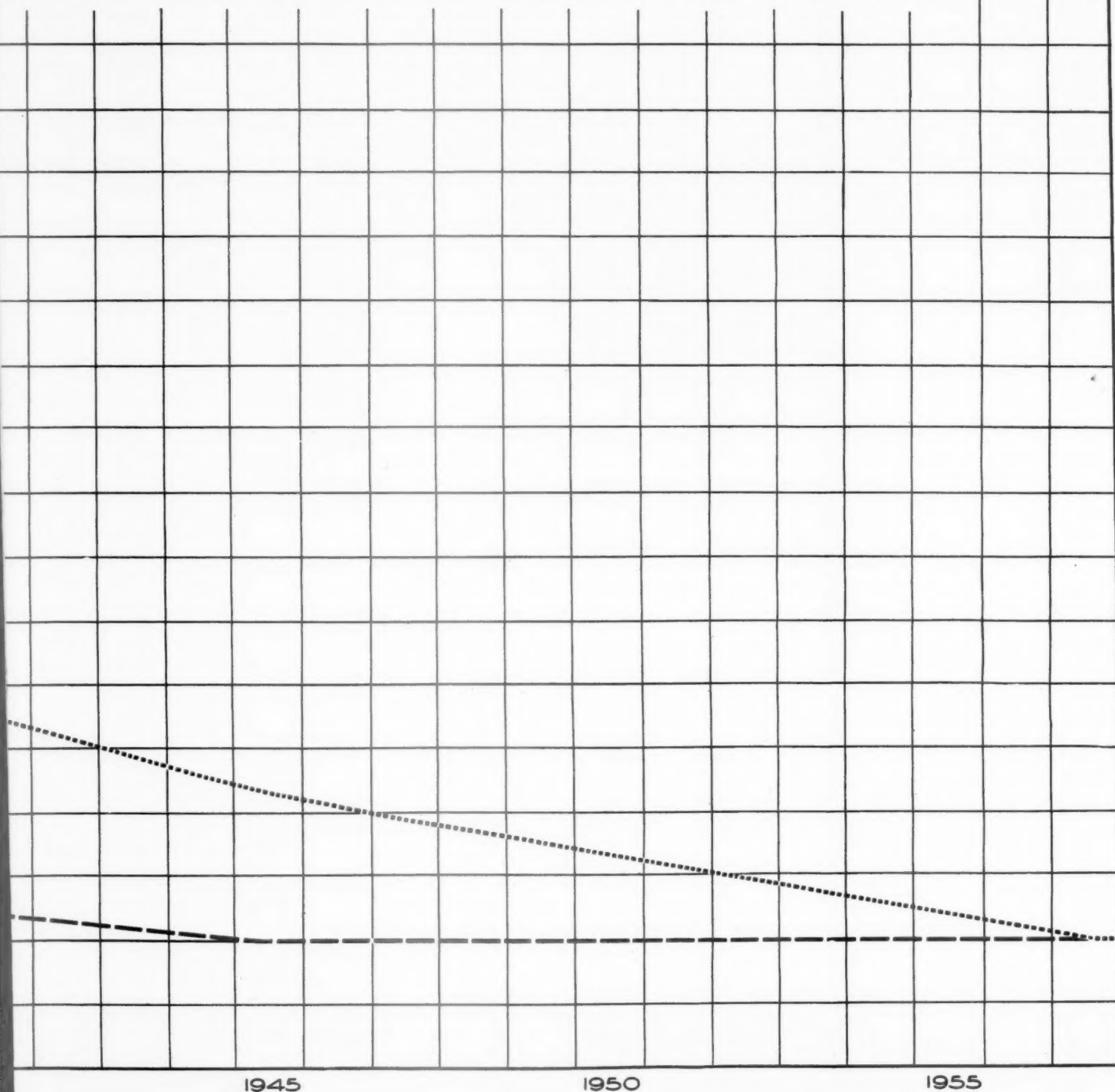
THE chart to the left shows the fluctuations in the bid prices of office building and hotel building bonds. While the upward spurt of the last month, particularly in the hotel bond line, was too rapid to last, the general trend of both lines is still definitely up.





INCREASING OR DECREASING REPLACEMENT COSTS AFFECT THE WORTH OF OLDER BUILDINGS

COPYRIGHT 1937 • REAL ESTATE ANALYSTS, INC. • SAINT LOUIS

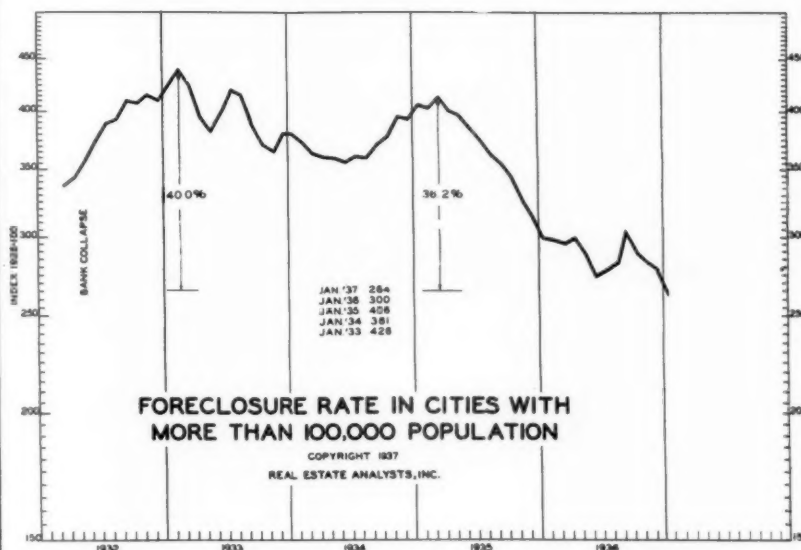




PERCENTAGE OF ALL FARMS LOST EACH YEAR THROUGH TAX SALES

COPYRIGHT 1937-REAL ESTATE ANALYSTS, INC., SAINT LOUIS



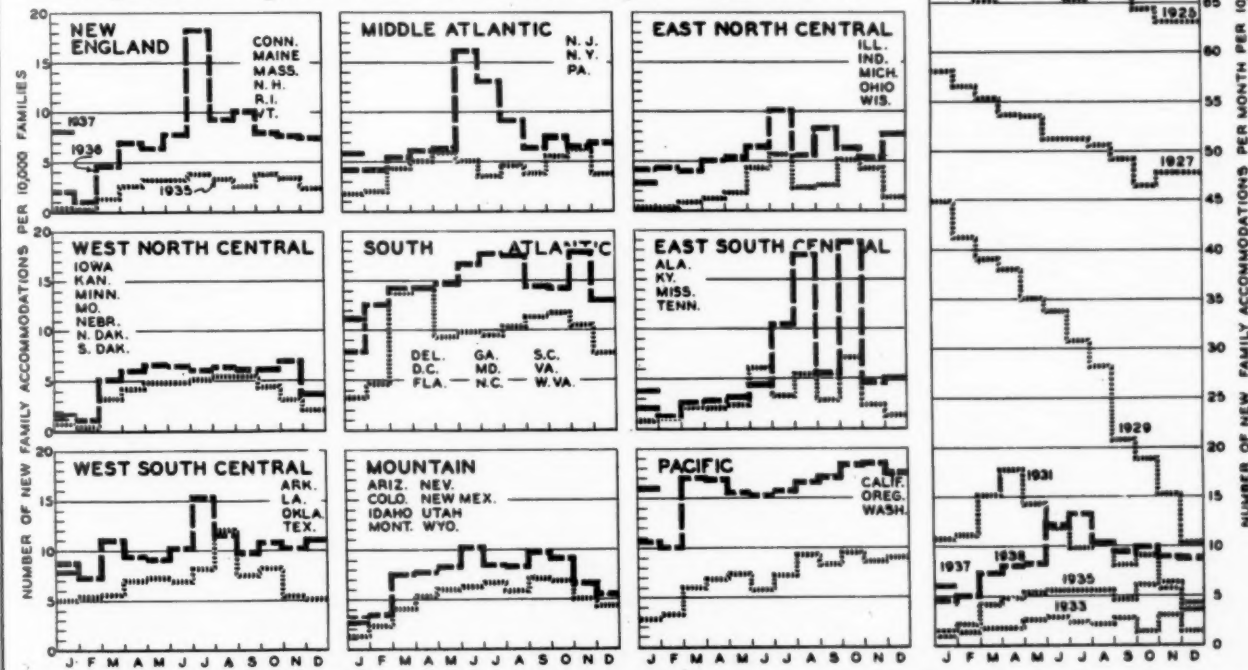


THE chart to the left shows the monthly fluctuations in the foreclosure rate in larger cities after adjustment for seasonal fluctuation.

This chart shows that in spite of HOLC foreclosures the urban foreclosure rate is dropping. At the end of 1936 urban foreclosures were 32.6% below the peak in the spring of 1935 and 36.6% below the all-time high in the early part of 1933.

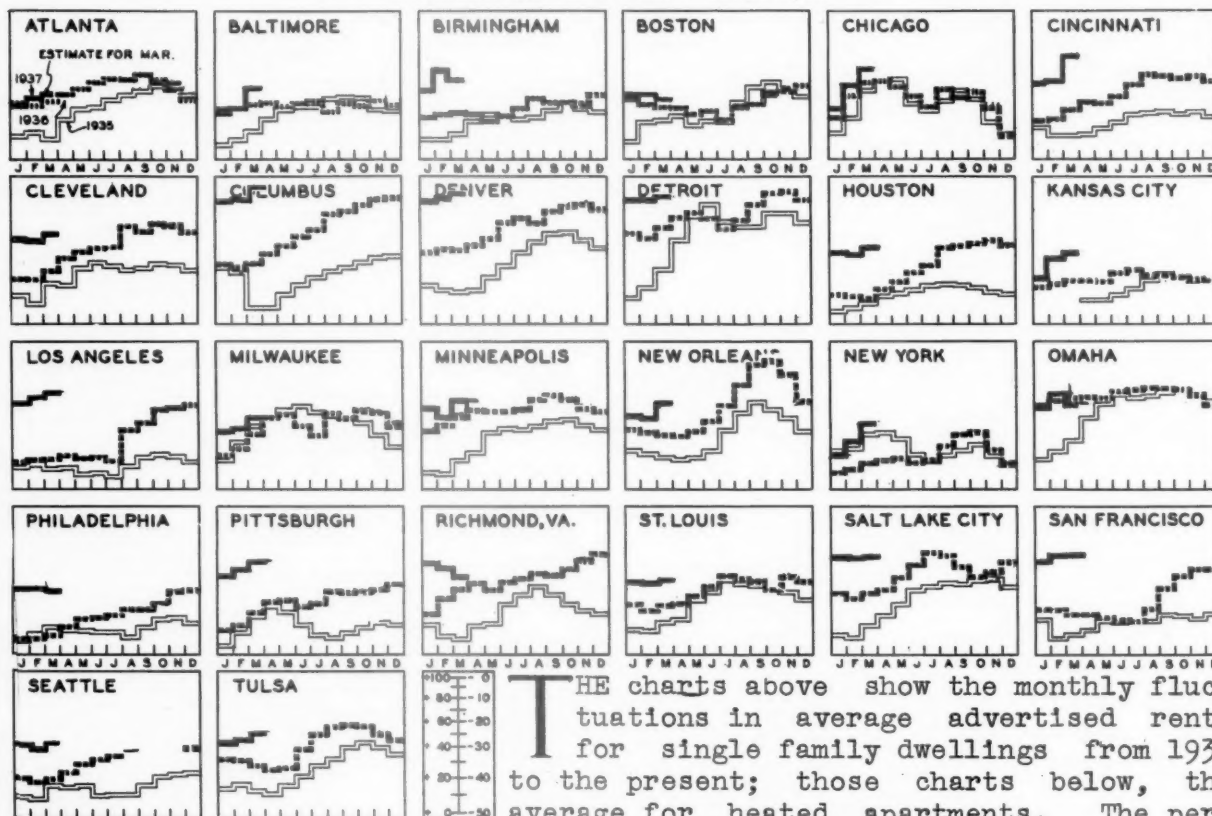
RESIDENTIAL BUILDING BY REGIONS

THE charts below show the volume of residential building in various regions by months for 1935, 1936, and January of 1937. The tall chart at the right is drawn to the same scale as the smaller charts and compares the present volume of building in the United States with the volume for a number of past years. On each chart the volume of new building is expressed as the number of new family accommodations provided per month for each 10,000 families.



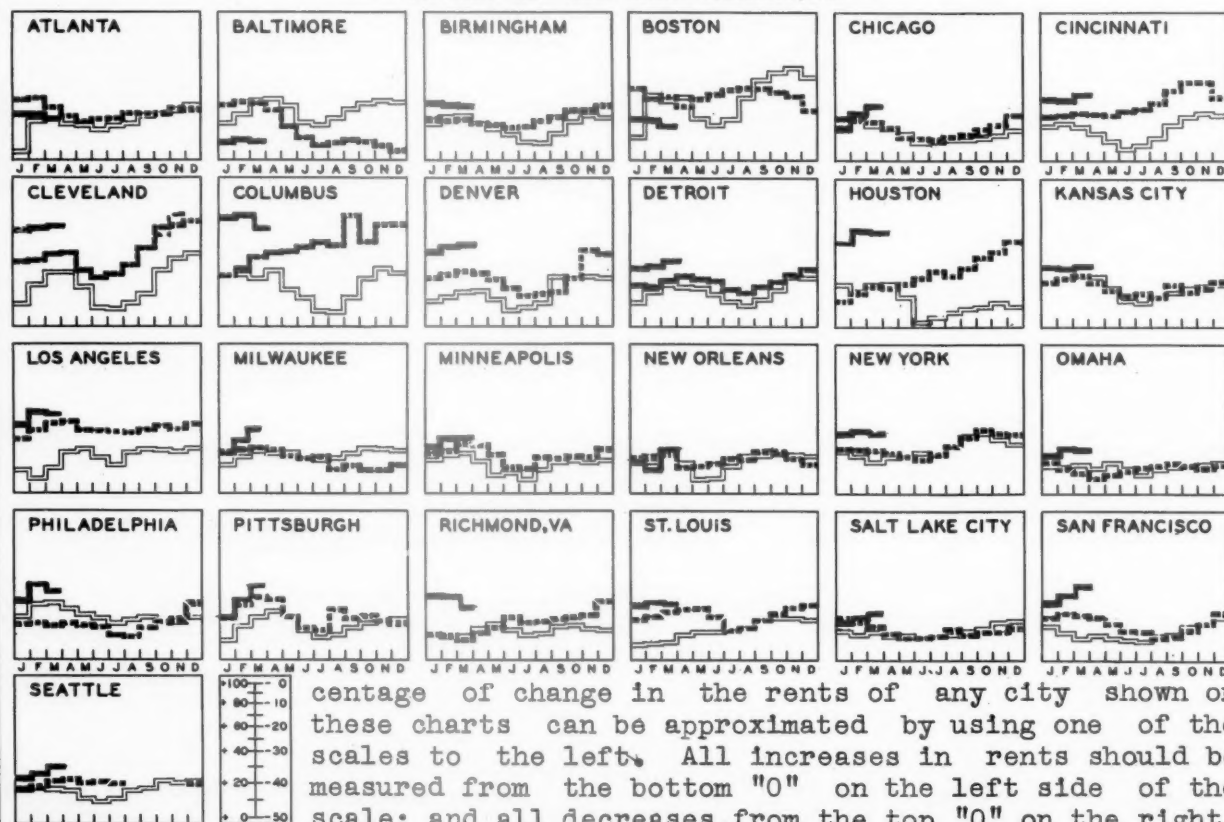
AVERAGE ADVERTISED SINGLE FAMILY DWELLING RENTS 1935-1937

COPYRIGHT 1937-REAL ESTATE ANALYSTS, INC.



AVERAGE ADVERTISED APARTMENT RENTS 1935-1937

COPYRIGHT 1937-REAL ESTATE ANALYSTS, INC.



ADVERTISED RENTALS ON DWELLING UNITS

THE Real Estate Analyst computes the average advertised rents of single family dwellings and heated apartment units each month in the twenty-six metropolitan cities listed below. The figures given are average rents per month per room for all units of each type, large and small, advertised in the classified columns of the leading newspapers of each city. The average of all places advertised for rent will vary considerably from month to month due to the inclusion some

months of a larger number of either high or low priced units. See the special note on page 663 of the January, 1937, Real Estate Analyst for an explanation of certain peculiarities of these figures.

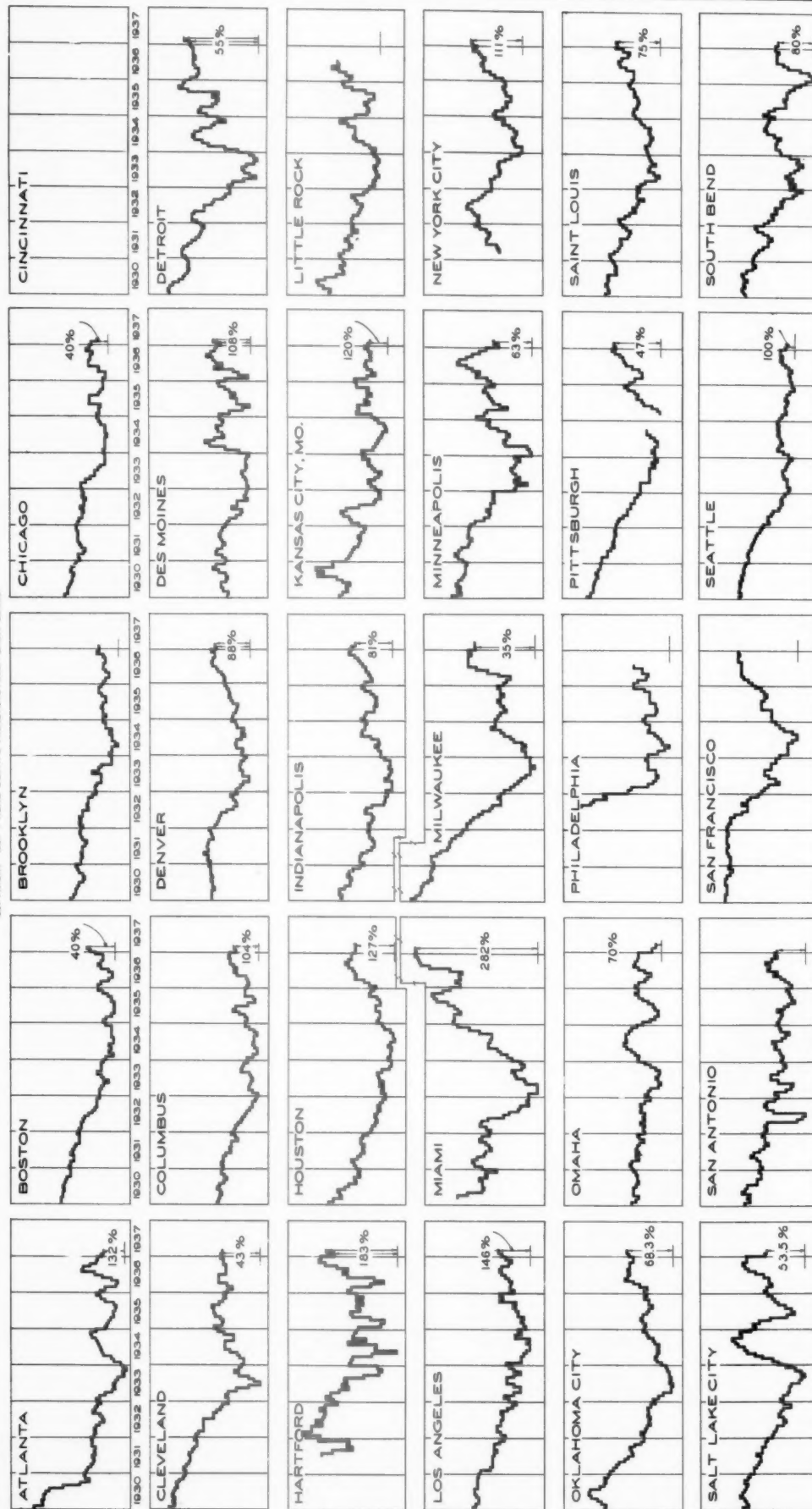
The March figures are preliminary, based on the advertisements appearing during the first two weeks of the month. In a majority of the cities these preliminary figures are above the final figures for March, 1936.

	1936												1937		
	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	*Mar.		
SINGLE FAMILY DWELLINGS	Atlanta	\$6.71	\$6.97	\$7.15	\$7.39	\$7.51	\$7.50	\$7.65	\$7.43	\$7.10	\$6.75	\$6.64	\$6.90	\$7.04	
	Baltimore	5.95	5.97	5.89	5.99	6.02	5.71	5.94	5.93	6.05	5.95	5.80	5.84	6.43	
	Birmingham	5.06	5.03	4.87	5.00	5.18	5.43	5.33	5.30	5.29	5.56	5.64	6.13	5.88	
	Boston	7.17	7.15	6.93	7.04	6.72	7.16	7.24	7.71	7.74	7.70	7.26	7.33	7.16	
	Chicago	10.32	10.37	10.11	9.63	9.12	9.96	9.60	9.80	9.10	7.86	9.06	10.12	10.91	
	Cincinnati	8.35	8.68	8.65	8.93	9.48	9.93	9.90	9.81	9.83	9.50	9.48	9.61	10.07	
	Cleveland	7.88	8.40	8.67	8.83	8.86	9.84	9.55	9.95	9.73	9.40	9.06	8.95	9.11	
	Columbus	5.44	5.71	5.95	6.23	6.42	6.98	7.03	7.35	7.53	7.53	7.49	7.47	7.95	
	Denver	5.82	5.96	6.17	6.67	6.80	6.65	7.05	7.18	7.26	7.14	7.36	7.38	7.54	
	Detroit	8.12	8.56	8.79	8.51	8.09	8.43	9.11	9.66	9.69	9.25	9.11	9.20	9.36	
	Houston	6.84	7.20	7.47	7.81	8.09	8.86	8.90	9.05	9.15	8.75	8.65	8.56	8.87	
	Kansas City	5.00	5.00	4.99	5.20	5.28	5.15	5.17	5.05	4.94	4.98	5.02	5.44	5.56	
	Los Angeles	8.74	8.95	8.80	8.81	8.69	10.15	10.36	10.97	11.05	11.12	11.13	11.46	11.58	
	Milwaukee	7.90	8.59	8.71	8.26	7.88	8.80	8.55	8.81	8.70	8.25	8.04	8.10	8.46	
	Minneapolis	6.49	6.69	6.67	6.67	6.71	7.05	7.20	7.05	6.71	6.71	6.75	6.33	7.08	
	New Orleans	5.28	5.25	5.38	5.66	6.11	6.75	7.41	7.53	7.05	6.11	5.58	5.60	6.02	
	New York	11.40	11.69	11.71	11.40	11.61	12.50	13.23	13.42	12.12	11.52	11.97	12.74	13.72	
	Omaha	6.34	6.38	6.36	6.57	6.62	6.69	6.66	6.65	6.32	6.04	5.98	6.40	6.11	
	Philadelphia	5.52	5.79	6.01	6.03	6.11	6.30	6.30	6.44	6.88	6.99	6.92	6.77	6.70	
	Pittsburgh	7.41	7.84	7.89	7.67	7.78	8.25	8.20	8.20	8.25	8.43	8.80	9.03	9.39	
	Richmond	6.98	7.18	6.96	7.21	7.32	7.52	7.46	7.69	7.98	8.25	7.84	7.59	7.32	
	Saint Louis	6.43	6.48	6.72	7.07	7.42	7.31	7.20	6.86	7.29	7.15	7.06	6.98	7.08	
	Salt Lake City	5.49	5.58	5.91	6.30	6.70	6.60	6.26	5.97	6.11	6.38	6.52	6.48	6.49	
	San Francisco	7.36	7.36	7.24	7.16	7.11	7.55	8.34	8.86	9.15	9.10	9.35	9.65	9.65	
	Seattle	5.31	5.70	5.96	6.09	6.19	x	x	x	x	6.40	6.58	6.49	6.61	
	Tulsa	6.56	6.42	6.48	7.11	7.67	7.97	8.00	7.96	7.64	7.41	7.35	7.43	7.64	
HEATED APARTMENT UNITS	Atlanta	10.42	10.00	9.71	9.82	9.89	10.13	10.10	10.33	10.14	10.37	10.01	10.02	9.73	
	Baltimore	12.02	11.65	10.74	10.09	9.79	9.88	9.94	9.75	9.63	9.56	9.94	10.01	9.95	
	Birmingham	8.57	8.45	8.39	8.26	8.27	8.52	8.68	8.98	9.01	9.28	9.26	9.13	9.02	
	Boston	11.68	11.13	11.59	11.80	12.05	12.20	12.18	11.97	11.08	10.38	9.73	9.59	9.48	
	Chicago	12.14	11.86	11.25	11.23	11.14	11.32	11.47	11.66	12.08	12.28	12.58	12.80	13.15	
	Cincinnati	11.47	11.45	11.40	11.57	11.71	12.01	12.81	13.30	13.32	12.43	12.20	12.12	12.43	
	Cleveland	10.77	10.82	9.97	9.60	9.79	10.25	11.10	12.25	12.46	12.49	12.17	12.19	12.24	
	Columbus	9.94	10.16	10.20	10.41	10.62	10.50	12.13	10.74	11.59	11.60	12.13	12.13	11.89	
	Denver	11.24	11.16	10.76	10.31	9.94	10.02	10.92	10.86	12.59	12.40	12.43	12.55	12.62	
	Detroit	10.70	10.93	10.79	10.65	10.27	10.05	10.32	10.68	11.08	11.28	11.32	11.45	11.69	
	Houston	8.59	8.53	8.70	8.95	9.28	9.03	9.31	9.87	10.12	10.58	10.50	11.26	11.20	
	Kansas City	7.11	6.86	6.61	6.48	6.51	6.40	6.79	6.58	6.76	6.99	7.33	7.40	7.47	
	Los Angeles	12.79	12.82	12.33	12.32	12.28	12.21	12.36	12.51	12.42	12.52	12.79	13.41	13.07	
	Milwaukee	10.02	9.95	9.64	9.51	9.60	9.02	9.15	8.97	8.96	9.22	9.65	10.10	10.62	
	Minneapolis	9.59	9.57	9.13	8.58	8.50	9.00	8.95	9.04	8.95	9.31	9.22	9.58	9.58	
	New Orleans	8.53	8.01	8.04	8.17	8.36	8.32	8.67	8.45	8.34	8.11	8.31	7.90	8.79	
	New York	17.40	17.20	16.97	16.74	17.02	17.88	18.54	19.30	18.95	18.90	18.84	18.90	18.81	
	Omaha	10.00	9.73	9.90	10.11	10.28	10.32	10.37	10.30	10.20	10.42	10.73	11.12	11.07	
	Philadelphia	13.08	13.23	13.08	12.94	12.45	12.37	12.98	13.30	13.62	14.58	14.90	15.80	15.21	
	Pittsburgh	10.96	10.82	9.93	9.42	9.29	10.28	9.80	9.95	9.65	9.72	9.90	10.80	11.51	
	Richmond	9.41	9.75	10.01	10.53	10.29	10.31	10.41	10.52	10.60	11.21	11.50	11.50	10.86	
	Saint Louis	10.17	10.37	10.38	9.95	9.26	9.34	9.69	10.04	10.33	10.47	10.29	10.28	10.14	
	Salt Lake City	9.50	9.16	8.98	8.98	9.02	9.37	9.10	9.21	9.16	9.29	9.58	9.76	10.01	
	San Francisco	11.93	11.83	11.41	11.02	11.01	10.67	10.73	10.96	11.42	12.17	12.63	13.05	13.58	
	Seattle	10.53	10.60	10.50	10.56	10.46	x	x	x	x	10.32	10.65	10.79	11.01	

*Preliminary
xNewspaper strike

REAL ESTATE TRANSFERS IN PRINCIPAL CITIES 1930-1937

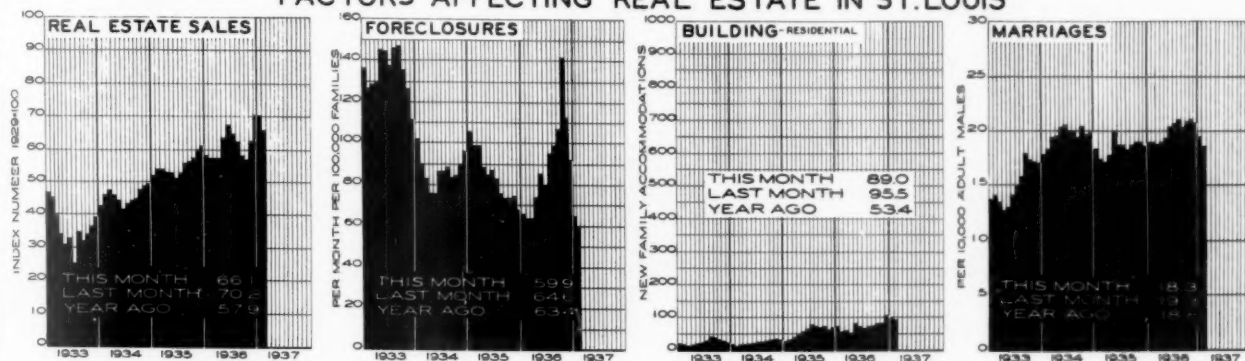
COPYRIGHT 1937 - REAL ESTATE ANALYSTS, INC. - SAINT LOUIS



THE charts above show the monthly fluctuations in real estate transfers in cities scattered throughout the United States. The percentage figure shown on each chart gives the relationship of present real estate activity in that city to the lowest point reached during the depression.

NOTE: CURRENT FIGURES WERE NOT AVAILABLE FOR THIS ISSUE IN THE CITIES WHERE NO PERCENTAGE FIGURES ARE SHOWN.

FACTORS AFFECTING REAL ESTATE IN ST. LOUIS



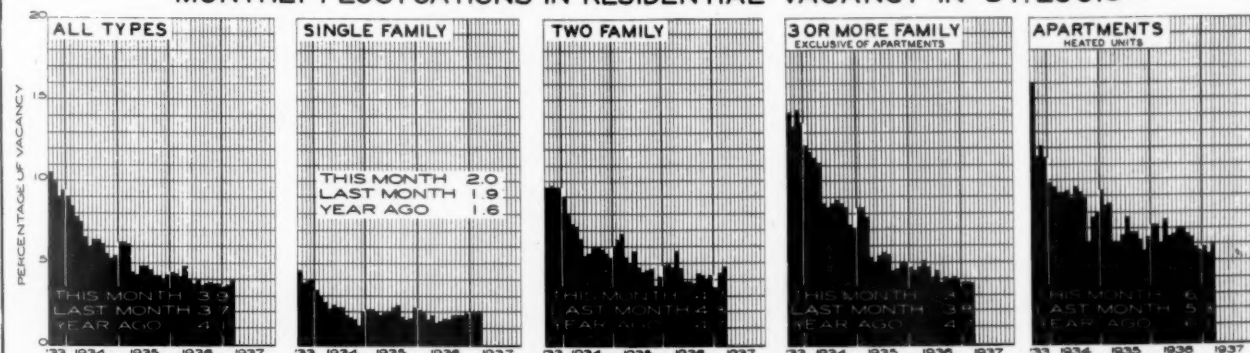
REAL Estate Analysts, Inc., has made an intensive study of Greater Saint Louis on the assumption that an exhaustive study over a long period of all factors affecting real estate in one representative community is often of greater value in determining the sequence of events in collapse and recovery than is a general study of the entire country.

Foreclosures dropped to the lowest point in Greater Saint Louis for February that they have reached in eighty-four months. Other than this, Saint Louis ran counter to the national upward trend in real estate activity for the month. Sales, corrected for seasonal fluctuation, dropped slightly, as did new building and marriages. In Saint Louis, as in many other communities, construction costs are too high in relation to average selling prices to enable the speculative builder to operate on a large scale.

Total residential vacancy in Saint Louis increased slightly in the period from February 8 to March 8. The number of vacant residential units for March of the last four years is shown in the table below in contrast with November, 1932.

Date	Vacancies	Vacancy %
November, 1932	28,207	12.8
March, 1934	17,550	7.8
March, 1935	13,600	6.1
March, 1936	9,110	4.1
March, 1937	8,580	3.9

MONTHLY FLUCTUATIONS IN RESIDENTIAL VACANCY IN ST. LOUIS



URBAN FORECLOSURES INDEX 1934 = 100

COPYRIGHT 1937-REAL ESTATE ANALYSTS, INC.-SAINT LOUIS

